CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

INVESTMENT COMMITTEE

OPEN SESSION

SUBJECT: External Equity – Report on U.S.   ITEM NUMBER: 10
          Equity Manager Structure

                                                    ATTACHMENT(S):   1

ACTION: ____   DATE OF MEETING: May 5, 1999

INFORMATION: X   PRESENTER: Ms. Okada
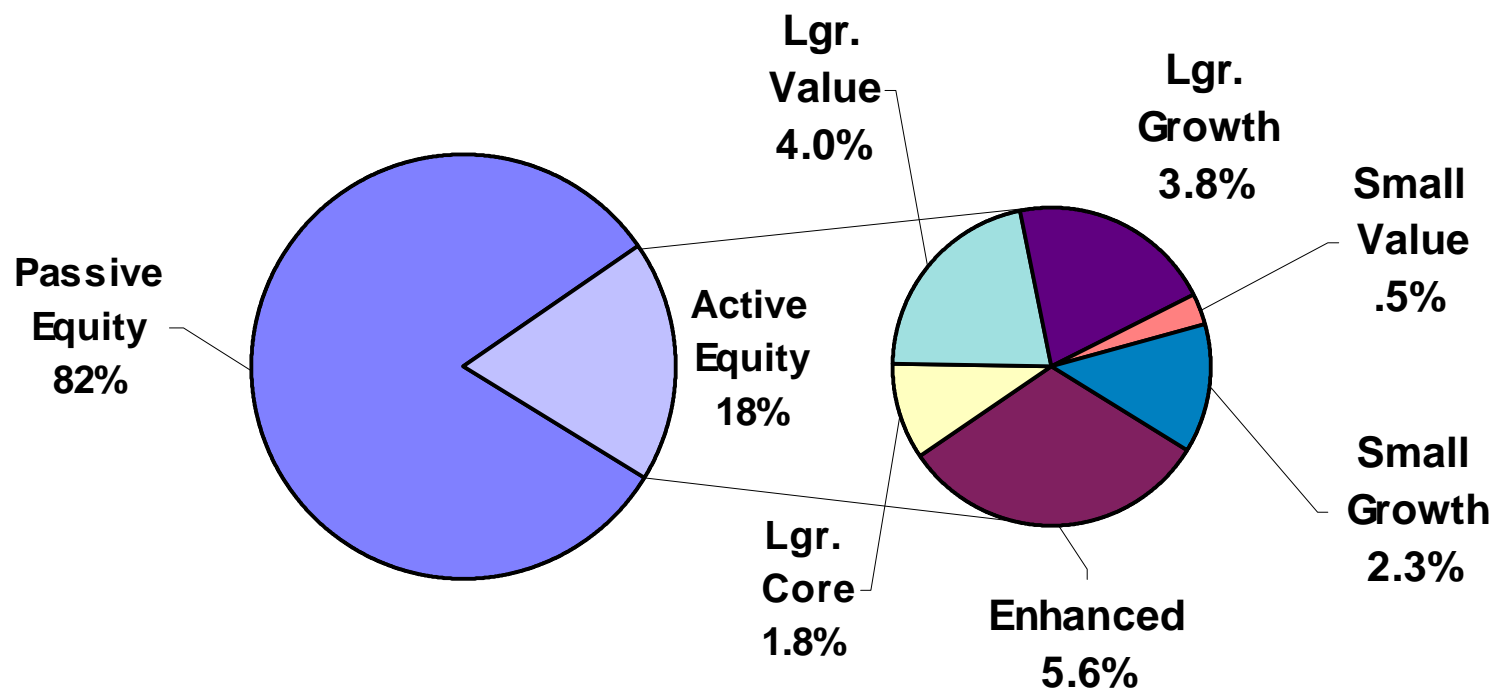
EXECUTIVE SUMMARY

In October 1997 the Investment Committee adopted a 20% target allocation to active management with a range of 15% to 25% for the domestic equity portfolio. The recommended structure of the active component of the domestic equity portfolio included enhanced indexing, large capitalization stocks and small capitalization stocks using the Russell 3000 index as the benchmark. . The Russell 3000 is a broad index that represents both large and small capitalization stocks which can also be categorized as having varying degrees of value and growth fundamental characteristics. To implement this structure a Request for Proposal (RFP) was released in February 1998. As a result of the RFP, CalSTRS retained sixteen managers to managed equity portfolios in varying mandates.

From 1986 through 1994 there was a relatively consistent 80/20 split between active and passive management. In early 1994 the active/passive allocation mandate was modified to allow the assets of active managers that were terminated to flow into the passive portfolio. By 1997 the allocation to active management had declined to 10%. Additionally the active component lacked diversification with this altered strategy. As the active manager pool was depleted, and assets were removed from different sectors of the market, CalSTRS' exposure to market capitalization and value/growth styles was altered. This resulted in an unintentional bet within the active component that, in turn increased its volatility to the broad market.

Today, with the retention of the sixteen managers, CalSTRS' active domestic equity portfolio has been structured with a diversification of varying styles and capitalization. The current active allocation is within its range at 16%

The chart in Attachment 1 depicts the implementation progress.

**Current Allocation
Domestic Active Equity
As of February 28, 1999**

Passive Equity 82%

Active Equity 18%

Lgr. Value 4.0%

Lgr. Growth 3.8%

Small Value .5%

Small Growth 2.3%

Enhanced 5.6%

Lgr. Core 1.8%

Total US Passive

Active Enhanced

Active Lgr Core

Active Lgr Value

Active Lgr Growth

Active Small Value